



STUDY SESSION MEMORANDUM

3.1

TO: Mayor and Town Council

August 14, 2018

SUBJECT: North Hartz Real Estate Development Feasibility Assessment

BACKGROUND

The North Hartz Real Estate Development Feasibility Assessment (“Assessment”) (Attachment A) examines the area of downtown Danville located north of Linda Mesa Avenue and south of San Ramon Valley High School. The Assessment summarizes research and results from a real estate market review and pro forma financial feasibility assessment of potential redevelopment within the area. The findings and economic information presented are intended to assist the Town Council in considering potential policy updates for the area.

The Downtown Business District (DBD) Ordinance and Comprehensive Economic Development Plan

The Town’s DBD Ordinance establishes land use and development standards for 13 separate land use sub-areas downtown. DBD Area 1 (Old Town Retail) covers the core downtown area along Hartz Avenue and restricts ground floor land uses to retail stores or restaurants. Other DBD areas surround the core downtown area and allow an increasingly broad range of uses and varying development standards, including floor area ratio, setbacks from property lines, and on-site versus off-site parking requirements.

The Town’s Comprehensive Economic Development Plan (CEDP), adopted by the Town Council on June 21, 2016, recommended that the Town update the DBD Ordinance with a focus on allowing additional development and use flexibility that responds to market trends, while maintaining the Town’s overall vision for the downtown area. The update process was divided into two phases:

Phase 1 is focused on providing additional land use flexibility within the Downtown Core, including areas 1, 2, 2A, 3 and 5. The Phase 1 update was approved by the Town Council on October 17, 2017.

Phase 2, currently in progress, is focused on the North Hartz Avenue area. Initial work on this phase is focused on the Real Estate Development Feasibility Assessment.

Currently, the North Hartz Avenue area is classified as DBD Area 4 - Residential Serving Commercial. This Area allows up to a 50 percent FAR and requires that 100 percent of the parking demand be met on-site. In contrast, DBD Area 1 allows up to an 80 percent floor area ratio (FAR) and allows for up to 100 percent of the parking demand to be provided off-site within Town-owned municipal parking facilities.

The North Hartz Area, which serves as the northern gateway to the historic downtown area, has seen limited redevelopment compared to other downtown districts. Previously, in an attempt to encourage redevelopment, the Town Council approved a rezoning of the North Hartz area allowing for DBD Area 11 development standards, land uses, and parking requirements for a three-year period, between the years of 2005 and 2008. No redevelopment occurred as a result of that effort.

In recent years, the properties located at 99 Railroad Avenue and 120 West Linda Mesa (the sites containing the historic James Root and Austin Root Houses), have redeveloped, including the restoration of the historic structures, and the addition of ground and second floor commercial and residential floor space. The redevelopment of these properties is likely attributable to historic preservation incentives which allowed the properties to redevelop using DBD Area 1 development and parking standards, waiving all Town controlled fees related to the historic structures.

DISCUSSION

In an effort to identify zoning deficiencies or recommend policy modifications, real estate development feasibility in the North Hartz area must first be assessed.

In December 2017, the Town engaged the consulting team of Economic & Planning Systems, Inc. (EPS) and MIG, Inc. to perform the North Hartz Real Estate Development Feasibility Assessment (Assessment). The firm of Carpenter/Robbins Commercial Real Estate, which is assisting the Town with future development and/or sale of its property at 115-125 North Hartz Avenue, is also providing feedback to EPS and MIG on this effort.

The Assessment tested several potential redevelopment scenarios, including current DBD Area 4 standards, and potential up-zoning to DBD Area 1 standards.

Based on the analyses of the Assessment, EPS identified six key findings:

1. Retail, restaurant, office, and residential real estate assets throughout Danville's greater Downtown Business District exhibit low vacancy and values that are sufficient to support new development under current market conditions.

2. Downtown Danville retailers face challenges to compete successfully with retailers online and in nearby retail centers.
3. In the North Hartz Avenue, the high value of existing space makes redevelopment financially infeasible under current DBD Area 4 standards.
4. Even with a hypothetical upzoning of the North Hartz Avenue area to higher-density DBD Area 1 standards, redevelopment is unlikely under all but one scenario tested.
5. Denser zoning allowances, beyond what is allowed in DBD 1, additional flexibility in allowable land uses, and development incentives that reduce project costs may incentivize development in the North Hartz Avenue area.
6. While changes to land use policy have the potential to stimulate redevelopment in the North Hartz Avenue area, it will be important to consider secondary effects, most notably on public parking facilities.

As described above, the Assessment found that redevelopment remains unlikely under all but one scenario tested. This scenario would involve rezoning to DBD Area 1 standards, including a high value “commercial condominium,” product which could include various office, service commercial, and medical office uses on the ground floor. It is important to consider that, under this scenario, allowed ground floor uses would include various office uses, in contrast to the core downtown area, which limits ground floor uses to pedestrian oriented retail or restaurant. The Assessment acknowledges that this product is untested in the local market.

To expand upon Finding #6, upzoning of the North Hartz Avenue area to DBD 1 Area standards would necessitate the provision of additional off-site parking within Town municipal parking lots or structures. Existing municipal parking lots do not have sufficient capacity to accommodate additional off-site parking demands generated by upzoning the North Hartz Avenue area. The Town’s most recent estimates for developing additional parking downtown range from \$45,000 to \$70,000 per space depending upon whether land acquisition is involved. In order to develop additional public parking to serve the area, it would be necessary to identify or develop a source of funding.

When factoring in the cost of offsite parking, it would appear that redevelopment of the area would need to occur under standards that are more intense than the current DBD Area 1 standards in order to achieve economic viability.

CONCLUSION

The Town's consultants from EPS and MIG will be attending this Study Session to present the findings of the Assessment and be available for questions.

It is requested that the Town Council receive the findings and provide feedback and direction on how to move forward in this current phase of the DBD Ordinance updates.

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A handwritten signature in black ink, reading "Nat Rojanasathira", followed by a horizontal line.

Nat Rojanasathira
Administrative Services Director

Attachment: A - North Hartz Avenue Real Estate Feasibility Assessment

MEMORANDUM

To: Town of Danville

From: Benjamin C. Sigman and Michael Nimon

Subject: North Hartz Real Estate Development Feasibility Assessment;
EPS #171131

Date: June 1, 2018

The Economics of Land Use



This memorandum summarizes research and results from a real estate market review and pro forma financial feasibility analysis of real estate development in the North Hartz area of downtown Danville. Findings are intended to provide the Town Council economic information for use in considering potential policy updates. Specifically, the study may inform changes to the Town's land use and economic development policies.

Redevelopment opportunities in the downtown area are limited. However, continual reinvestment in the downtown is critical to sustaining vibrancy. Downtown Danville serves as a central gathering place for community events and has the highest concentration of business establishments in Town. It also is home to the Village Theatre, Veterans Memorial Building and Senior Center, Danville Library and Community Center, Museum of the San Ramon Valley, and other community facilities. Commercial real estate data reveal the relative popularity of downtown with historically stronger performance of office and retail uses relative to space elsewhere in Town. The downtown is an important economic center and contributor to the spirit and sense of place in the community.

Despite the market strength of the downtown, its local-serving orientation and historic development patterns limit the depth of market for tenants, as compared with regional-serving centers like Walnut Creek. The business base of the downtown is commonly characterized as "mom and pop" establishments, with many independent and locally owned businesses. While this market profile can make redevelopment challenging, these small businesses comprise a unique tenant mix that is central to Danville's character and economic fabric.

Background

The Town of Danville enjoys a unique downtown commercial area which includes a diverse mix of largely well-maintained buildings dating to the mid-19th century as well as complementary newer development which has been added over time. As a result, Downtown Danville is considered by many to be the "heart and soul" of the community.

ATTACHMENT A

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Downtown Business District

After incorporation in 1982, the Town adopted the Downtown Business District Ordinance (DBD Ordinance) as a tool to help guide development and land use patterns in a manner that would preserve and enhance the character of the downtown area. The DBD Ordinance covers the Downtown area roughly from San Ramon Valley High School to Sycamore Valley Road (see **Figure 1**). The DBD Ordinance establishes 13 zoning districts, which overlay different portions of the downtown area.

DBD Area 1, Old Town Retail, covers the core downtown area along Hartz Avenue and restricts ground floor land uses to retail stores or restaurants. These restrictions are intended to preserve the core downtown area as a vibrant pedestrian-oriented corridor. Other DBD zoning districts surround the core downtown area and allow an increasingly wide range of land uses which are intended to complement and provide spill-over pedestrian traffic into the core downtown area. The different DBD zoning areas also provide for varying development standards, such as height, floor area ratio, setbacks from property lines, and on-site versus off-site parking requirements. The DBD Ordinance has remained largely unchanged since its original adoption.

Economic Development

In 2012, Town Council authorized an economic development study to examine Danville's competitive position and prepare a plan to maintain the Town's fiscal health. The effort evaluated all major economic drivers within the community and found that Danville contains strong financial/wealth management and scientific/technical sectors, and a growing consulting sector. The study culminated in the development of the Town's Comprehensive Economic Development Plan (CEDP), adopted by the Town Council in June 2016. A major finding was that retail uses in downtown Danville face stiff competition from other retail options, including online sales and the major shopping destinations to the north (Walnut Creek) and south (Pleasanton, Dublin and Livermore). The CEDP recommended that the Town develop strategies to fortify downtown economic competitiveness, including in the North Hartz area (i.e., the area between San Ramon Valley High School and Linda Mesa Avenue).

Stemming from CEDP recommendations, the Town is considering updates to the DBD Ordinance. A first step focused on changes to policy in the core downtown area, which were approved by the Town Council in October 2017. Those updates provided additional land use flexibility, allowing retail stores to incorporate experiential elements and blended uses into their business model. Additionally, the Town revised the DBD Ordinance to allow additional flexibility for restaurants related to indoor and outdoor seating. A second step toward implementing CEDP focuses on possible updates to the North Hartz area, with this North Hartz Real Estate Development Feasibility Assessment providing important economic analysis of real estate potential.

North Hartz Avenue Area

The Danville community and its Town government has long desired to see the North Hartz Avenue area of downtown redevelop in a manner complementary to the character of the core downtown area. Currently, the North Hartz area is characterized by 1950s-era single-story buildings with frontage parking within the public right-of-way, and in some cases private parking spaces behind or in front of the buildings. This Real Estate Development Feasibility Assessment seeks to determine which, if any, policies or changes to the DBD zoning, could motivate redevelopment in the area. The Feasibility Assessment focuses on identifying real estate development opportunities under various density and land use options.

Key Findings

1. Retail, restaurant, office, and residential real estate assets throughout Danville's greater Downtown Business District exhibit low vacancy and values that are sufficient to support new development under current market conditions. Real estate rents and sale prices have exhibited a robust recovery from the recession and vacancy currently is low across the real estate types studied here (retail, office, for-sale residential, and rental residential).¹ As a result, new real estate development projects located in strong locations have occurred in recent years. Additionally, new projects are in the pipeline in the downtown core area, seeking to take advantage of favorable market conditions. While there has been some recent development in the North Hartz area, these projects have benefited from historic preservation incentives (e.g., waived on-site parking requirements and fees) revealing that Town interventions can motivate investment in the North Hartz area.

2. Downtown Danville retailers face challenges to compete successfully with retailers online and in nearby retail centers. Across the nation, the retail industry is grappling with sophisticated new retail models. Retail purchases are occurring on computers and phones, as well as through traditional in-store interactions. In addition, regional centers are evolving to better attract and retain retail customers. To sustain itself, downtown Danville must be responsive to this evolution in the retail sector. Particularly vulnerable to the evolving retail landscape are small, independent stores which increasingly must compete by providing consumers compelling experience-based value that attracts and retains shoppers. Conversations with local brokers indicate that the competitive landscape for retail is taking its toll in downtown Danville, with turnover of businesses revealing market volatility and limited market depth among retail tenants.

3. In the North Hartz Area of Downtown, the high value of existing space makes redevelopment financially infeasible under current zoning. The North Hartz area is zoned "Downtown Business District Area 4 – Residential-Serving Commercial" (DBD 4). The development standards for DBD 4 limit the floor area ratio to 50 percent and require that 100 percent of required parking be provided on-site. These conditions, and other factors, severely constrain the quantity of new real estate development that is allowable. With existing structures commanding strong market rents, and sale prices that in some cases appear to exceed investment value, land prices in the DBD 4 zone are higher than what a typical developer/investor would pay for a redevelopment site under the current market conditions. This analysis finds that with DBD 4 zoning, it does not make financial sense to buy an existing building for redevelopment. Existing building values are too high to make an acceptable financial return by demolishing and rebuilding at a similar or slightly higher density.

4. Even with a hypothetical upzoning of the North Hartz Area to higher-density "Area 1" (DBD 1), redevelopment is unlikely under all but one scenario tested. This analysis tests whether providing more density potential is likely to produce feasible redevelopment projects. In scenarios based on DBD 1 zoning, which allows for an 80 percent floor area ratio and up to 100 percent of required parking to be provided off-site, roughly \$3 million to \$7 million per acre in additional land value might be created. However, only one scenario reveals creation of

¹ For the purposes of this study, "retail" real estate includes restaurant spaces. While the Town makes important distinctions between retail and restaurant uses in its land use code, available real estate data commonly aggregate these uses into a single retail use category.

sufficient value to potentially support redevelopment. The highest value scenario tested marginally clears the site cost hurdle and relies on a high-value “commercial condominium” product.² Although upzoning creates additional value that improves development feasibility, the commercial condominium product type is untested in the local market and is likely best suited for various office, service commercial and medical type uses on the ground floor, as opposed to retail or restaurant uses. Accordingly, this analysis finds that relaxing retail use requirements will likely be necessary to incentivize investment in the North Hartz area.

5. Denser zoning allowances, beyond what is allowed in DBD 1, additional flexibility in allowable land uses, and development incentives that reduce project costs may incentivize development in the North Hartz Area. Preliminary testing of three-story scenarios (i.e., 35’ height), while not detailed in this study, suggests that the additional value from a third floor makes a significant contribution to redevelopment feasibility. Future analysis might evaluate the physical forms and economic viability of such higher density projects. Beyond increased density allowances, offering greater flexibility in the ground floor uses (e.g., service retail, office, and medical office), will improve feasibility, with local brokers suggesting potentially stronger demand for these tenant types. In addition, while this study considers the opportunity for a commercial condominium that could create high value, this real estate product likely is best suited for service retail and office users. Finally, fee-related incentives, similar to those used by the Town for historic preservation projects or reduced parking ratios, may improve the economics of redevelopment at the margin. However, these incentives alone are not likely to be sufficient to motivate redevelopment. In none of the scenarios studied would a waiver of fees alone shift a project from infeasible to feasible.

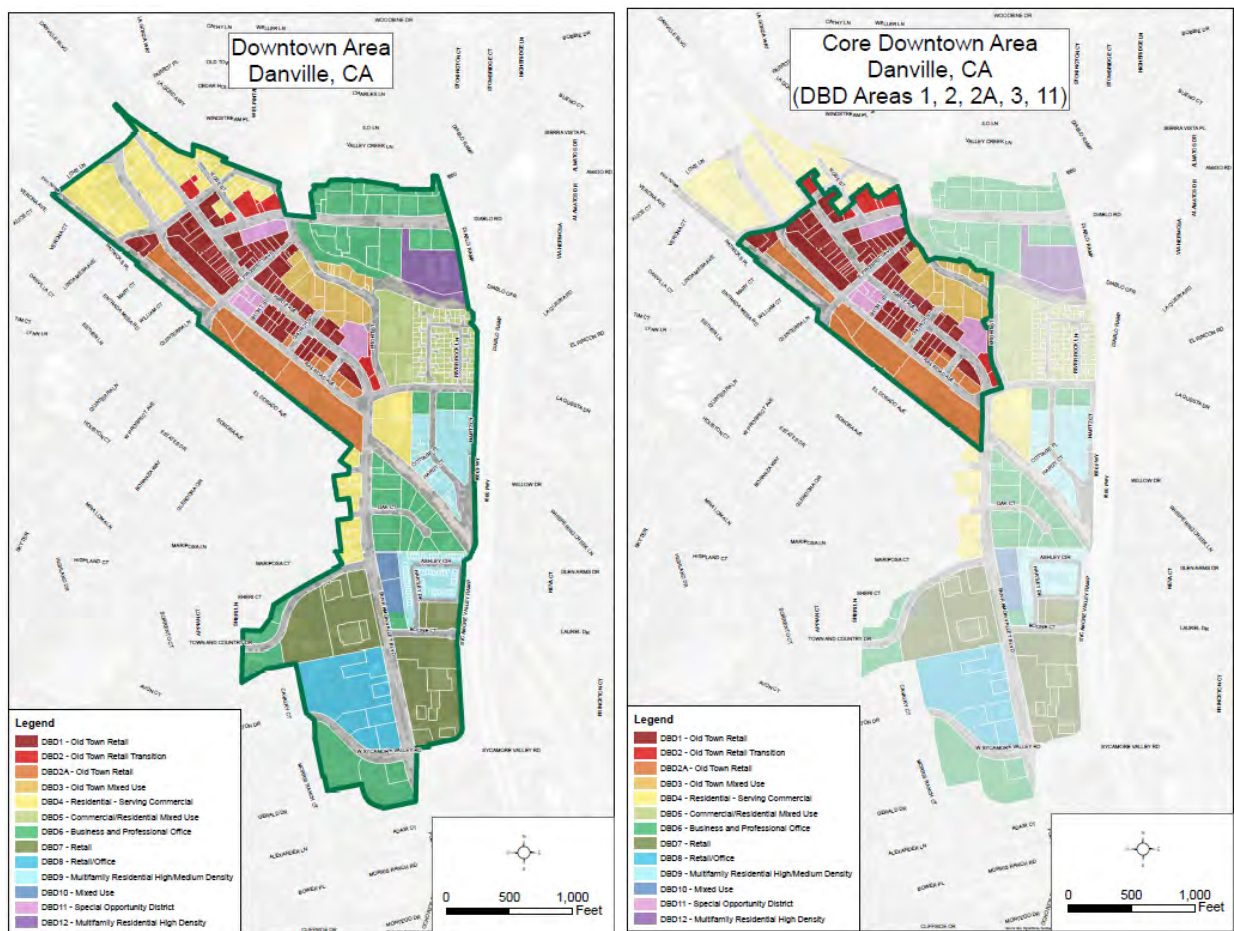
6. While changes to land use policy have the potential to stimulate redevelopment in the North Hartz area, it will be important to consider secondary effects, most notably on public parking facilities. The hypothetical upzoning to DBD 4 standards, in all scenarios tested, generates a need for parking to be provided off-site. Existing Town-operated municipal parking lots and on-street parking do not have sufficient capacity to accommodate additional off-site parking needs. As a result, should the Town upzone the North Hartz area, solutions for the funding and development of additional off-site parking in the North Hartz area will be necessary. As an example, one of the redevelopment tests conducted as part of this study requires nearly 100 off-site parking spaces. In order to achieve successful outcomes from an upzoning, additional consideration and planning for nearby off-site parking is crucial. In addition, it will be important to evaluate the fiscal implications (e.g., parking costs borne by the Town) of upzoning as part of the land use policy decision making.

² Similar to a residential condominium, which involves partial ownership of a property, a “commercial condominium” is a non-residential property with two or more individually owned units. Commercial condominiums typically appeal to small, entrepreneurially-minded businesses looking for long-term real estate investments.

Real Estate Market Analysis

This overview of local real estate market conditions is focused on market trends that influence real estate development potential in downtown Danville. **Figure 1** identifies the entire DBD area's geographic boundary (map at left) and the core downtown area (right). EPS considers market conditions by land use, including retail/restaurants, office, and residential, etc. This review focuses on identifying inventory, occupancy rates, lease rates, sale prices, and other relevant data, to establish the economic foundation for financial analysis of real estate development (described in the next section). EPS relies heavily on data from CoStar Group, a provider of commercial real estate data and input from interviews with real estate brokers active in Danville.

Figure 1 Downtown Business District and Core Downtown Area³



Source: Town of Danville

Retail Real Estate Market

The Downtown Business District is Danville's signature retail area, comprising a core downtown retail area surrounded by other retail and mixed-use areas. Food and beverage is the dominant retail category in the Downtown Business District, while general retail, apparel, furniture and

³ The Downtown Business District comprises 13 Districts while the "Core" Downtown Area comprises 5 Districts.

other retail is more common within shopping centers located outside of the downtown. Currently, the entire Downtown District area contains about 1.03 million square feet of retail space, only about 30,000 square feet more than a decade ago. New retail developments include the Danville Hotel project, constructed in 2015, and 302-312 Railroad Avenue, constructed in 2017/2018. Despite healthy rents and low vacancy, the limited development activity is reflective of scarcity of developable land and restrictive zoning requirements.

Average retail rents downtown reached a peak in 2016 at about \$45 per square foot per year but have decreased to an average of \$33 per square foot per year since (**Table 1**). The high point in the trend likely is attributable to the availability of well-positioned new space during 2016, when leasing of the Danville Hotel retail occurred. As exhibited in the case study research (below), new retail is marketed at annual triple-net rents of \$48 per square foot and above.⁴ **Figure 2** presents the retail rental trend downtown. CoStar data also reveal that retail lease rates in the core downtown area are comparable to the broader Downtown Business District area. However, retail rents vary significantly from roughly \$18 per square foot to \$54 per square foot per year, depending on factors including location, visibility, building age, specific building characteristics, and other property-specific factors.

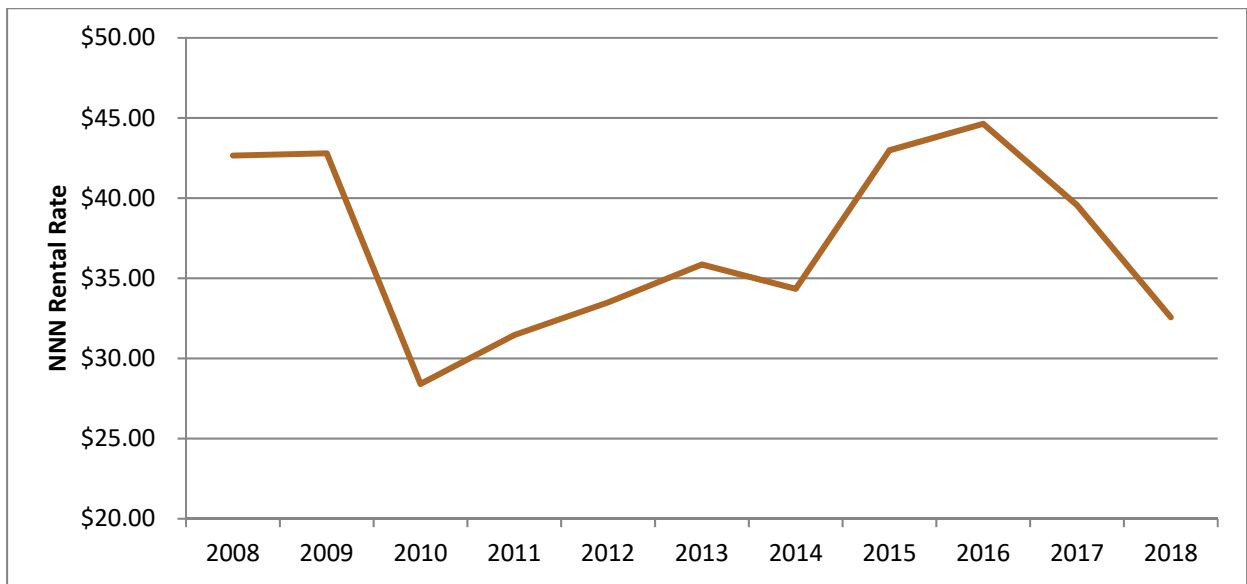
In general, the downtown retail cluster (including restaurant space⁵) is doing well, with good occupancy and busy storefronts. In fact, the market for retail space downtown remains very tight as vacancy rates have hovered below 3 percent over the past three years. Typically, vacancy below 5 percent results in rising rental rates. Despite the low vacancy, local real estate brokers express concerns about the sustainability of many existing retail businesses, citing high turnover in recent years as a sign of potential market weakness. **Figure 3** presents the Downtown Danville retail inventory, net absorption of space, and vacancy rate trends.

With generally healthy rents and very low vacancy, the market for Downtown retail and restaurant space exhibits potential for modest additions of new retail space. Despite the low vacancy, the market is limited to the degree that it is perceived by many retailers to have limited accessibility and freeway visibility (exposure to vehicle traffic) compared with “core” established regional retail locations in the East Bay. Furthermore, many chain retailers prefer to locate in other commercial centers close to Danville (e.g., Broadway Plaza in Walnut Creek, Stoneridge Mall in Pleasanton, and the soon-to-open City Center in San Ramon). Consequently, the downtown tenant base is largely made up of smaller, local shops and demand for new space is modest.

⁴ Triple net rents (NNN) are a typical rent structure for retail uses with net revenue paid to landlords and expenses for taxes, insurance, maintenance, and utilities borne by tenants. By comparison “full service rents” include costs typically paid by landlords.

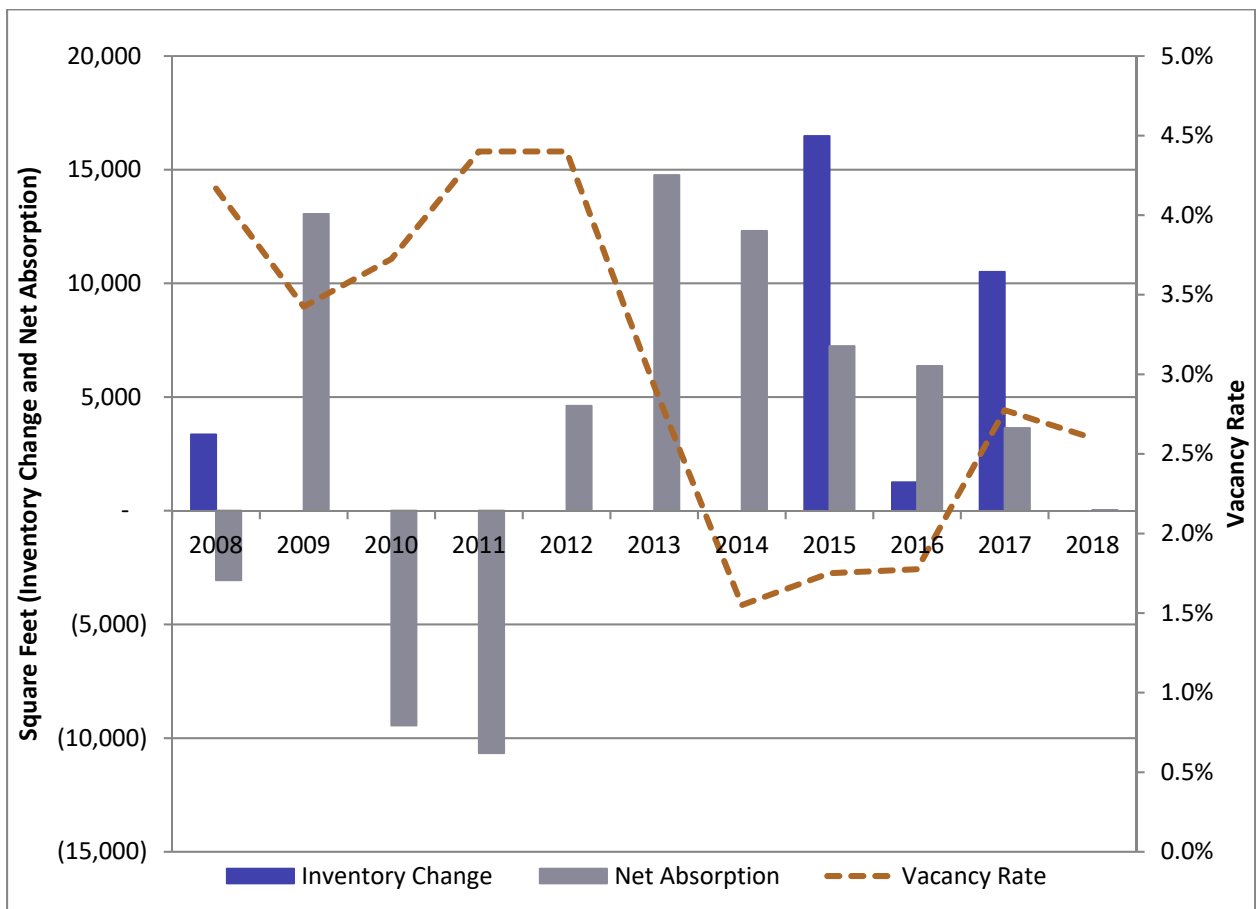
⁵ “Retail” data presented in this market overview includes restaurant space.

Figure 2 Downtown Danville Retail Rent Trend 2008-18



Source: CoStar Group

Figure 3 Downtown Danville Retail Inventory, Net Absorption, and Vacancy 2008-18



Source: CoStar Group

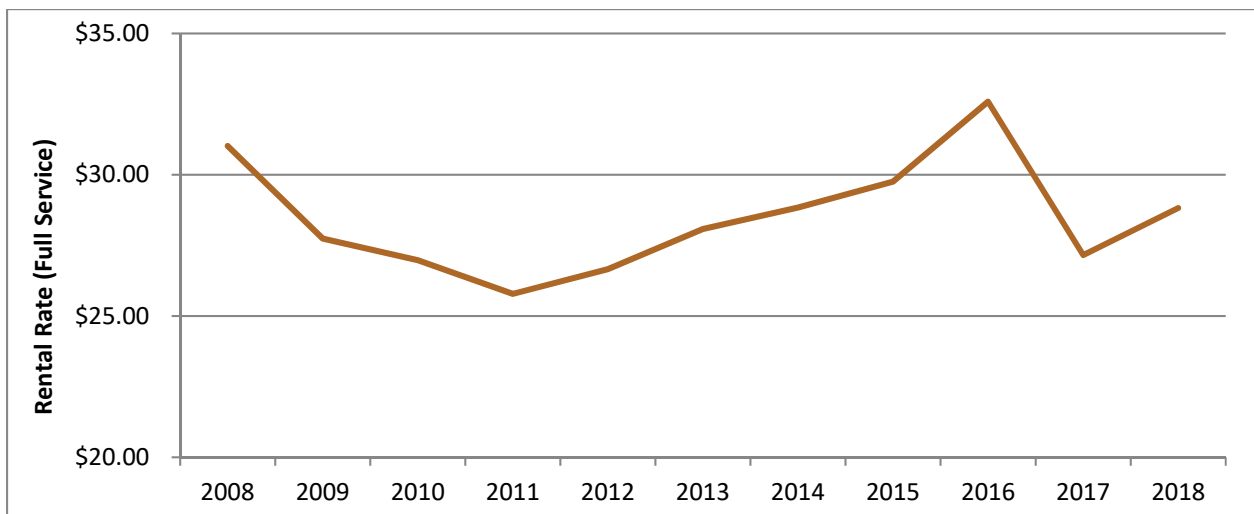
Office Real Estate Market

Economic development analysis previously performed for Danville has found the Town's office market to be constrained, with local businesses challenged by the limited availability of appropriate space.⁶ Between 2010 and 2015, the number of jobs in Town fell by 3.5 percent. However, professional and scientific jobs and management jobs increased by 21 percent and 19 percent, respectively, over this time. Growing employment in these professional sectors has contributed to the strength of the local office market in Downtown Danville.

Despite job growth in some industries, average annual office rents have decreased modestly in recent years, from about \$31 per square foot (full service) in 2008 to the current level of about \$29 per square foot. Similar to the trend in retail rents, office rents peaked in 2016. After hitting a high of about \$33 per square foot per year, office rents have retreated, as shown in **Figure 4**. The market data also reveal a premium for office space located in Old Town Downtown, with current rents there of about \$36 per square foot per year.

While it is possible that the recent downward swing in office rents reflects the mix of product available for lease, a similar downward trend is observed throughout Danville and San Ramon, which suggests a recent softening in the local office market. Anecdotal evidence reveals much of the demand for office in downtown Danville is driven by local residents seeking to live and work within the same community. By comparison, office rates have continued their upward climb in Walnut Creek and countywide in recent years. Despite some potential local market weakness, office vacancy has steadily decreased to a very healthy 4 percent, as shown in **Figure 5**. While virtually all office in Danville is a traditional rental product, interviews with brokers suggest that demand for office ownership condominiums is likely given the market success of this product in San Ramon, Dublin, and Fremont.

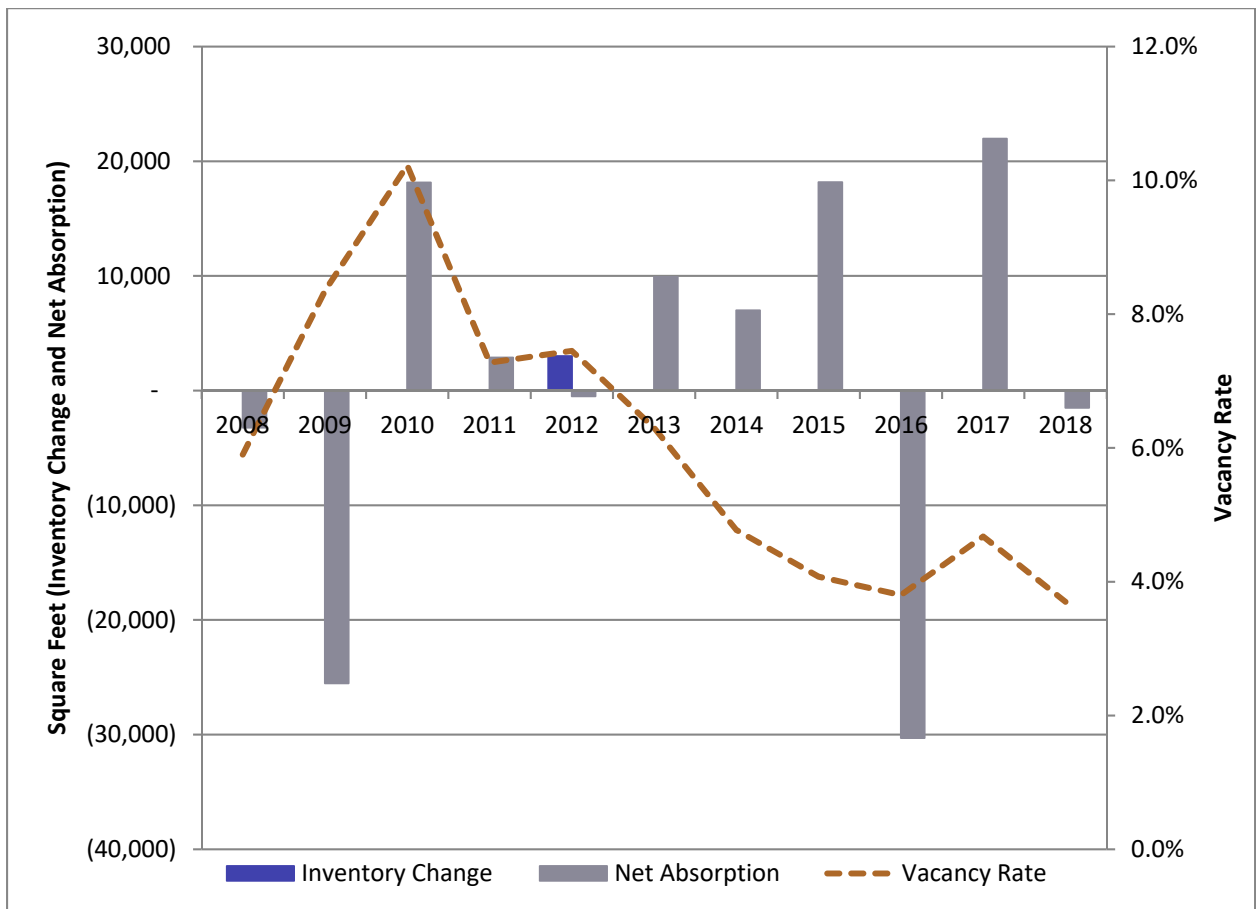
Figure 4 Downtown Historical Office Rent Trend (2008-18)



Source: CoStar Group

⁶ 2013 Economic Development Analysis, BW Research.

Figure 5 Downtown Historical Office Inventory, Rent, and Vacancy Rate



Source: CoStar Group

Residential Real Estate Market

Owing to its beautiful setting, historic downtown, quality of life, low crime rate, and high-ranking local schools, Danville is a very desirable location to live. While the Town has a range of housing options, single-family dwelling units comprise over 90 percent of the housing stock (including single-family detached and attached housing). Since 2010, the Town has added 215 single-family units, but only about 33 multifamily units (condominiums and/or apartments). This analysis focuses on the multifamily housing stock, as further described below.

Rental Apartments

Since 2000, fewer than ten new apartment units have been built in the downtown area, and only four apartment projects were built in other areas of Danville (Rose Garden Apartments, Meadow Wood at Alamo Creek, Willow Commons, and Sycamore Place). The latter three are senior housing developments with below-market rental rates. Rose Garden Apartment (picture at right) achieves average rents of \$2.89 per square foot per month.



Riverwalk is a recently approved project located in downtown Danville. The project includes low-rise apartments in a two-story, 130,000-square foot building. It will also have many amenities, such as a coffee bar, fitness center, and pet washing station. Potential pricing is unknown at this time.

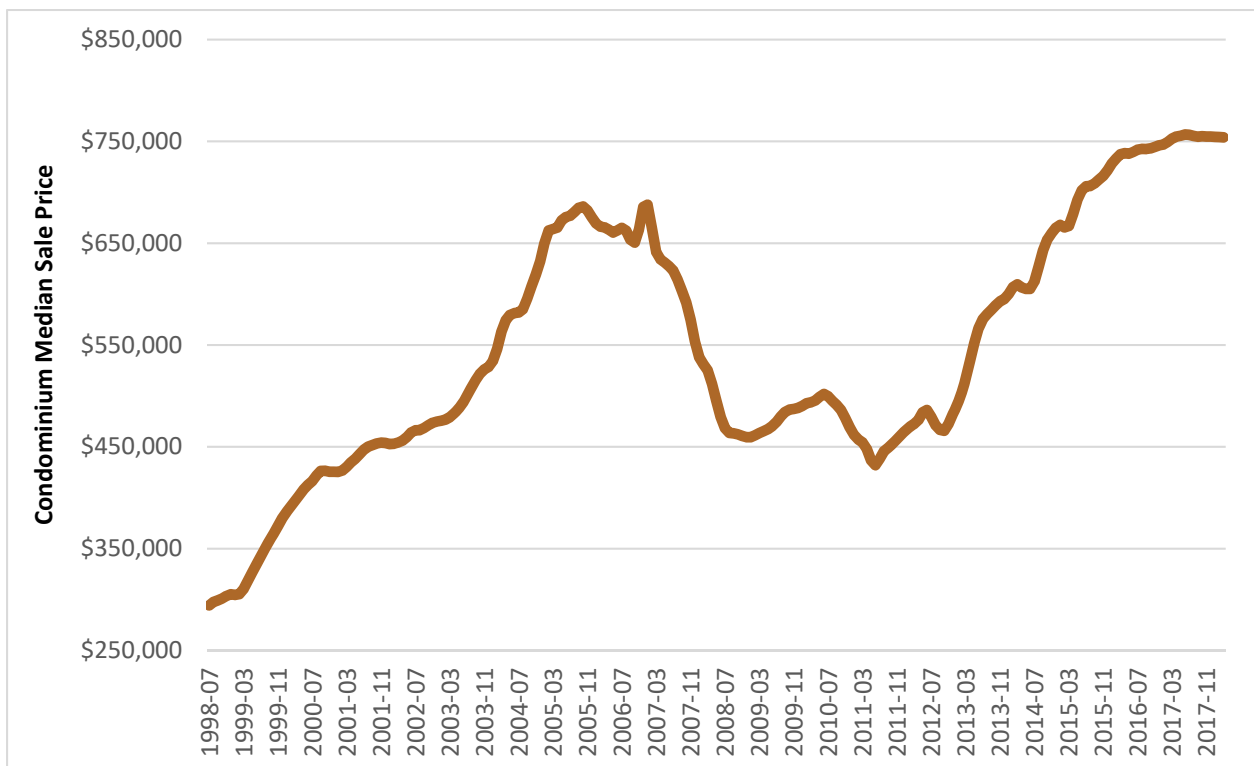


Due to the paucity of local apartment projects, this study also considered apartment projects built from 2015 through 2017 in Walnut Creek's downtown. AVE Walnut Creek, Arroyo Apartments, Lyric, and Agora at South Main achieve rents ranging from \$3.16 to \$3.90. Overall, the rental rate for new product in downtown Walnut Creek averages about \$3.80, over 30 percent higher than Rose Garden Apartment rents. Despite significant differences between downtown Walnut Creek and downtown Danville, these rents are illustrative of how newly built, market-rate apartments might perform in downtown Danville.

Condominiums

Though somewhat rare, condominium units are in demand in Danville. Available data reveal that condominium prices have risen nearly 75 percent since 2011, to well above pre-recession levels. The current estimated condominium value averages about \$750,000. New units can sell for significantly more, with most condominium units in the Danville Hotel project in downtown Danville selling for well over \$1 million (see project profile below). Historic condominium trends in Danville are shown in **Figure 6**.

Figure 6 Danville Estimated Condominium Value Trend



Source: Zillow Research

Recent Project Profiles

This study considers recently built and proposed real estate development projects in downtown Danville. These projects inform a market understanding of desirable product characteristics and market performance, including land use types, building formats, parking characteristics, and notable design elements. They also highlight the new space premium generated in the Danville market by new developments, over existing space (much of which was built in the 1960s and before).

The Danville Hotel

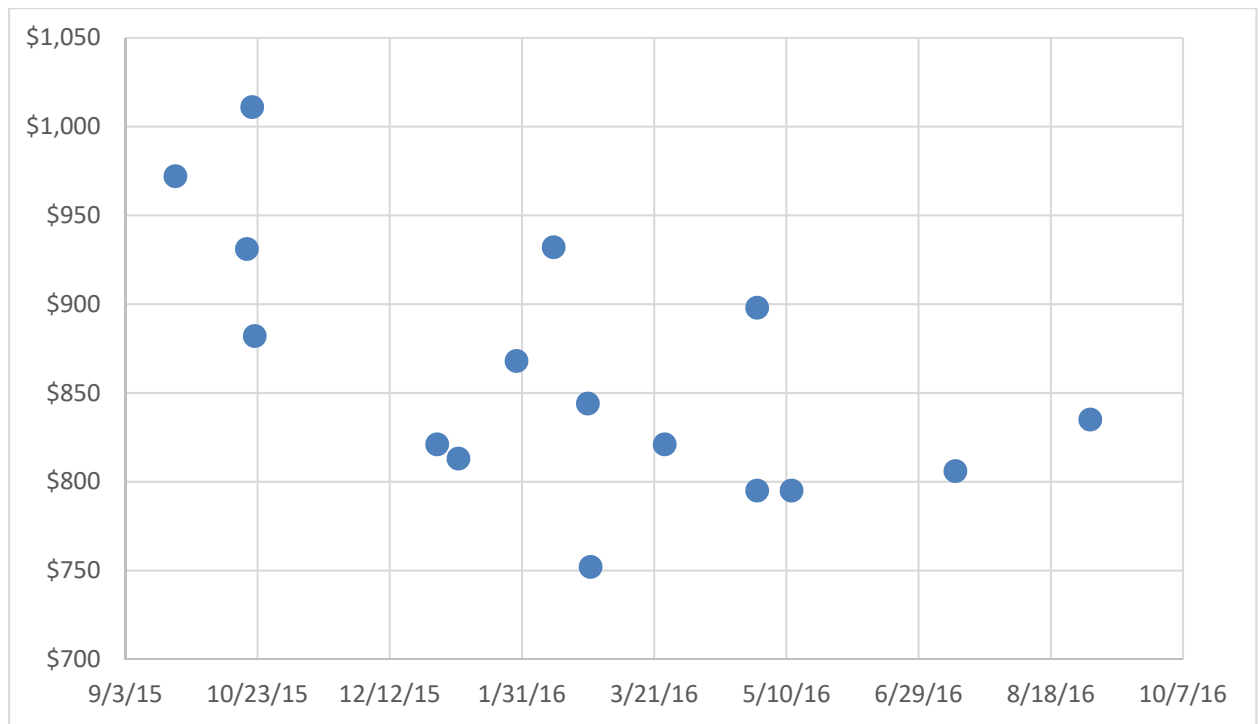


Project Name	The Danville Hotel
Location	411 Hartz Avenue
Year Built	2015
Use(s)	Condominiums and Retail/Restaurant
Rentable Building Area	18,140 SqFt of Retail
Asking Rent (NNN)	\$48 per SqFt (2017)
Vacancy	0%

The historic Danville Hotel and the adjacent McCauley House were carefully preserved and redeveloped into 16 second-floor condominiums with ground floor retail and restaurant in 2015. The 35,000-square foot development features ground-level garage parking, a public plaza, and pedestrian-centric design on the 0.98-acre city block. Retail spaces are spread among four buildings, including the two historic structures and two newly built structures. The total of 18,140 square feet of rentable retail space has been fully occupied since 2015. Available data indicate that condominium units are fully sold, with an average sale price of \$1.05 million, or about \$860 per square foot, for one and two-bedroom units.⁷ **Figure 7** presents per-square-foot sales data for Danville Hotel condominiums. These data suggest that the project's condominium pricing started off strong at project opening but that value waned over time.

⁷ Includes sales and re-sales from 2015 to present as reported by Redfin.

Figure 7 Danville Hotel Condominium Per-Square-Foot Values



Source: Redfin

302-312 Railroad Avenue



Location	302-312 Railroad Avenue
Year Built	2017/2018
Use(s)	Retail/Restaurant and Office
Rentable Building Area	10,500 SqFt
Asking Rent (NNN)	\$51 per SqFt
Vacancy	68%
Number of Stories	Two

This nearly complete commercial building in the core downtown area features roughly 2,200 square feet of second-floor office space and about 8,000 square feet of ground-floor retail located at the corner of Railroad Avenue and Church Street. Asking rents for both retail and office spaces are listed at \$51 per square foot as of early 2018. While vacancy is at 21 percent, there appears to be 68 percent availability reported by Costar, likely reflective of some available sub-lease space. Presently, tenant improvements are underway for a 4,000 square foot restaurant, with the remaining area currently unoccupied.

120 West Linda Mesa Avenue



Location	120 West Linda Mesa Avenue
Year Built	2016
Use(s)	Residential and Retail/Restaurant
Rentable Building Area	4,542 SqFt
Asking Rent (NNN)	\$50 per SqFt
Retail Space Available	0%
Number of Stories	Two
Number of Condominiums	Three
Sale Price	\$4.4 million (June, 2017)

The historic Austin Root House was moved forward on the lot to make room for an additional 2,271 square feet of new ground-floor commercial spaces and three second-floor residential units in 2016. Together, the restored Austin Root House and the newly built retail portion encompass 4,542 square feet of leasable commercial space. The three residential units were included in the June 2017 sale of the full development (residences and retail), for the final price of \$4.4 million. Commercial asking rents were recently listed at \$50 per square foot per year.

Hartz Plaza (Proposed)



Project Name	The Hartz Plaza
Location	200 Hartz Avenue
Year Built	Estimated Delivery Q1 2019
Use(s)	Retail/Restaurant and Office
Rentable Building Area	22,700 Sq.Ft.
Asking Rent (NNN)	\$45 - \$54 (per SqFt, per year)
On-site Parking	25 spaces

Hartz Plaza is an existing retail site that is proposed for renovations and an addition that would add second floor office spaces and additional ground floor retail and restaurant. Upon delivery, Hartz Plaza will feature 10,700 square feet of ground floor retail and 12,000 square feet of second floor office. Annual asking rents for the retail spaces range from \$45 to \$54 per square foot as of early 2018.

Venture Commerce Center



Project Name	Venture Commerce Center
Location	7042 Dublin Boulevard, Dublin, CA
Year Built	2008
Use(s)	Office
Rentable Building Area	64,000 SqFt
Numer of Condominium Units	31
Vacancy	None

Venture Commerce Center consists of 31 privately owned commercial condominiums totaling 64,152 rentable square feet housed in four buildings near the junction of I-580 and I-680 in Dublin. Condominium units feature a variety of styles including Class-A building designs as well as flex spaces with roll-up doors and open floor plans. Venture Commerce Center has several similar developments throughout the Western United States and features creative financing and amenity packages to help ease a switch from traditional office lease contracts. The initial sale prices at Venture Commerce Center were record setting in Dublin, measured on a per-square-foot basis.

Development Feasibility Assessment

This financial analysis considers the feasibility of redevelopment of two “generic” (i.e., non-specific) North Hartz Area sites, a 0.7-acre site and a 1.0-acre site. Zoning is contemplated under two potential conditions, current zoning and upzoning. Key development capacity assumptions are shown below.⁸ Parking ranges reflect the use mix considered in the scenarios described below.

Figure 8 Basic Feasibility Test Parameters

Scenario	Zoning	Building Area	Onsite Parking	Offsite Parking
Site 1 Current Zoning	DA4	12,000 Square Feet	33 Spaces	0 – 24 Spaces
Site 1 Upzoning	DA1	24,400 Square Feet	18 Spaces	49 - 98 Spaces
Site 2 Current Zoning	DA4	22,000 Square Feet	61 Spaces	0 – 44 Spaces
Site 2 Upzoning	DA1	35,000 Square Feet	30 Spaces	1 - 71 Spaces

For the purpose of this assessment, redevelopment uses include retail (including restaurant), office, commercial office condominium, residential rental, and residential condominium. Five development concepts are considered for each scenario. They include:

- Scenario 1: Ground Floor Retail with Rental Residential
- Scenario 2: Ground Floor Retail with For-Sale Residential
- Scenario 3: Ground Floor Retail with Office
- Scenario 4: Ground Floor Restaurant with For-Sale Residential
- Scenario 5: For-Sale Commercial with For-Sale Residential

Analytical Approach

The analysis provides an initial feasibility results for redevelopment in the North Hartz Area. It relies on static (stabilized-year) pro forma framework to estimate the land value supported by each development scenario. This approach compares real estate development value at project stabilization (i.e., after project lease up is complete) with the cost of project development in constant 2018 dollars. The analysis estimates finished real estate value for rental product based on assumptions concerning market-supportable lease rates, operating costs, and capitalization rates. Commercial Condominium value assumptions reflect anticipated sale pricing. Development cost assumptions reflect standard (location-adjusted) construction costs, typical project soft costs (e.g., architecture and engineering), local fees and permits, and a required developer return on investment. The assumptions reflect EPS research, third-party data (e.g., CoStar Group market data, RSMeans, and Saylor construction cost estimates), and correspondence with MIG and Town staff.

The analysis estimates land value for each scenario. When development value exceeds development costs, the difference represents what a developer is able to pay for improved land. The calculation yields a value measure commonly referred to as “residual land value.” Residual land value estimates are compared to the value of existing sites to determine feasibility. In order

⁸ Site Yield and Parking Analysis by MIG is presented in **Appendix A**.

for redevelopment to be considered "feasible" (i.e., to support building acquisition and redevelopment investment), residual land value must exceed the value of the existing use.

Pro Forma Financial Analysis

The following tables document results of development feasibility analysis of the five scenarios tested. The results reflect the current market conditions, as further described in the **Appendix** with results presented in **Figure 8**. As shown, the first four scenarios are not likely to be feasible under the current market conditions. Only in Scenario 5 does upzoning create enough residual land value to potentially justify redevelopment. This scenario reflects a value premium that is anticipated to be generated by providing commercial and residential for-sale products. While the scenario does appear feasible, the value differential between the existing retail asset value and the redevelopment land value is relatively modest. This suggests that small value reductions or cost additions that are not reflected in this analysis could potentially compromise feasibility. Additionally, as previously noted, the commercial condominium is not an established product type in Danville and the market value and depth for this product type is somewhat uncertain.

Figure 8 Summary of Pro Forma Financial Analysis

<i>Pro Forma Scenario</i>	1	2	3	4	5
Existing Retail Asset Value for All Scenarios ²			\$12,040,000		
Scenario Description	Ground Floor Retail/ Residential Rental	Ground Floor Retail/ Residential Condominium	Ground Floor Retail/ Office	Ground Floor Restaurant/ Residential Condominium	Commercial Condominium/ Residential Condominium
<u>Site 1 Redevelopment (0.7-Acre Site)</u>					
DA4 - Current Zoning	\$2,850,000	\$4,830,000	\$3,800,000	\$4,330,000	\$5,670,000
<u>DA1 - Upzoning</u>	<u>\$6,520,000</u>	<u>\$10,540,000</u>	<u>\$8,080,000</u>	<u>\$8,500,000</u>	<u>\$12,580,000</u>
Upzoning Value Creation	\$3,670,000	\$5,710,000	\$4,280,000	\$4,180,000	\$6,910,000
Land Value Gain Over Existing Retail Asset	-\$5,520,000	-\$1,500,000	-\$3,970,000	-\$3,540,000	\$530,000
<u>Site 2 Redevelopment (1.0-Acre Site)</u>					
DA4 - Current Zoning	\$3,940,000	\$6,480,000	\$5,170,000	\$5,830,000	\$6,640,000
<u>DA1 - Upzoning</u>	<u>\$7,030,000</u>	<u>\$10,890,000</u>	<u>\$9,330,000</u>	<u>\$9,830,000</u>	<u>\$12,590,000</u>
Upzoning Value Creation	\$3,090,000	\$4,410,000	\$4,160,000	\$4,010,000	\$5,950,000
Land Value Gain Over Existing Retail Asset	-\$5,010,000	-\$1,160,000	-\$2,710,000	-\$2,210,000	\$550,000

(1) Totals may not sum due to rounding.

(2) Land value for full redevelopment established at current Net Building Value.

APPENDIX A:

Site Yield and Parking Analysis



Site 1 : DA 4 Zoning

Zoning: Downtown Business District Area 4: Resident Serving Commercial

Site Area: 0.7 ac

FAR: 40% (max allowable 50%)

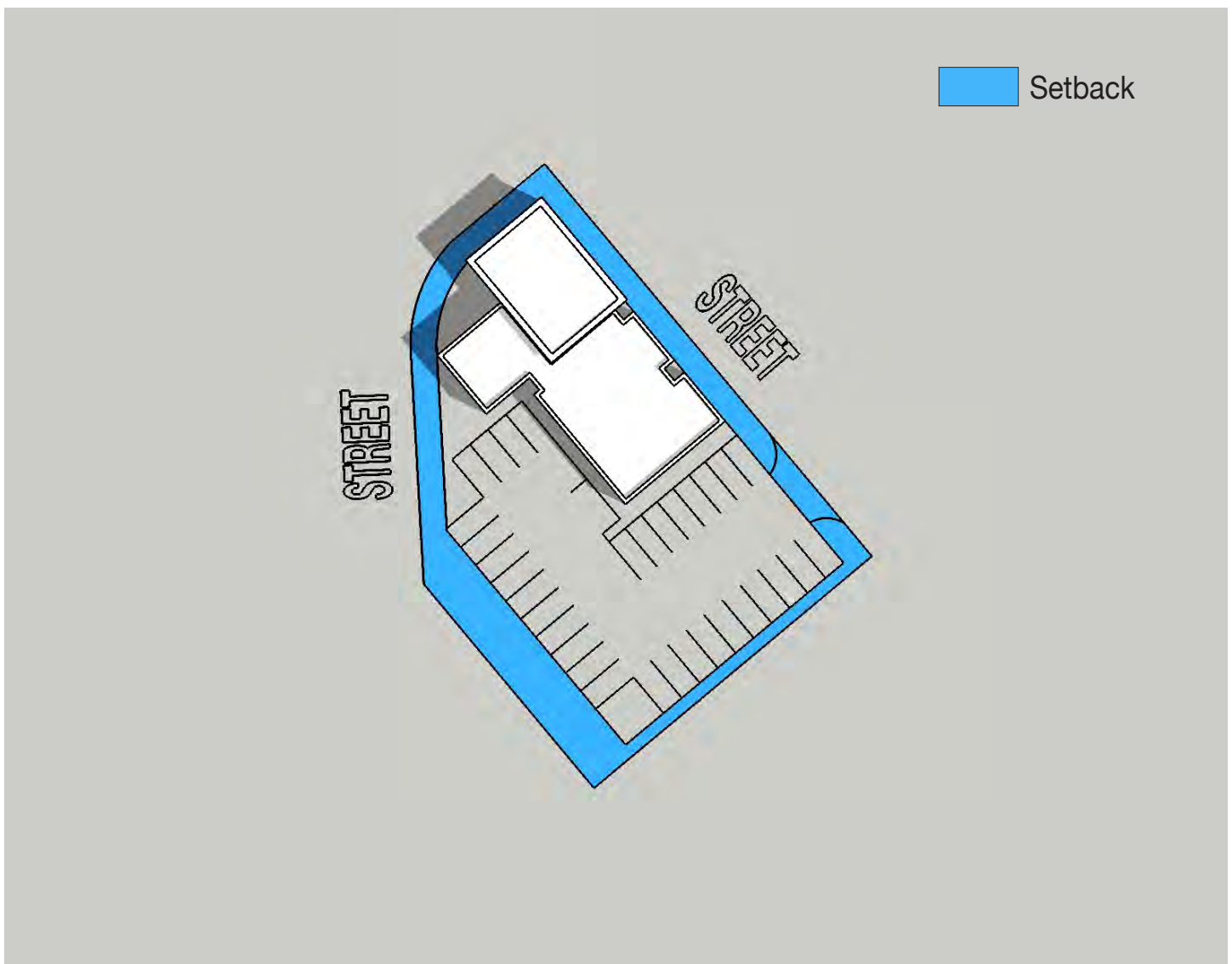
Land Use: Ground Floor Retail (P), Residential above ground floor (C)

Building Placement: 10 ft Front Yard, 5 ft Side Yard, 20 ft Rear Yard

Building Height: 2 stories, 35 ft

Building Area: 12,000 sf (6,000 sf Retail, 6 Residential Units)

Parking: 33 pkg spaces (6,000/250 = 24 Retail pkg, 6du x 1.5 = 9 Residential pkg)



Site 2 : DA 4 Zoning

Zoning: Downtown Business District Area 4: Resident Serving Commercial

Site Area: 1 ac

FAR: 50%

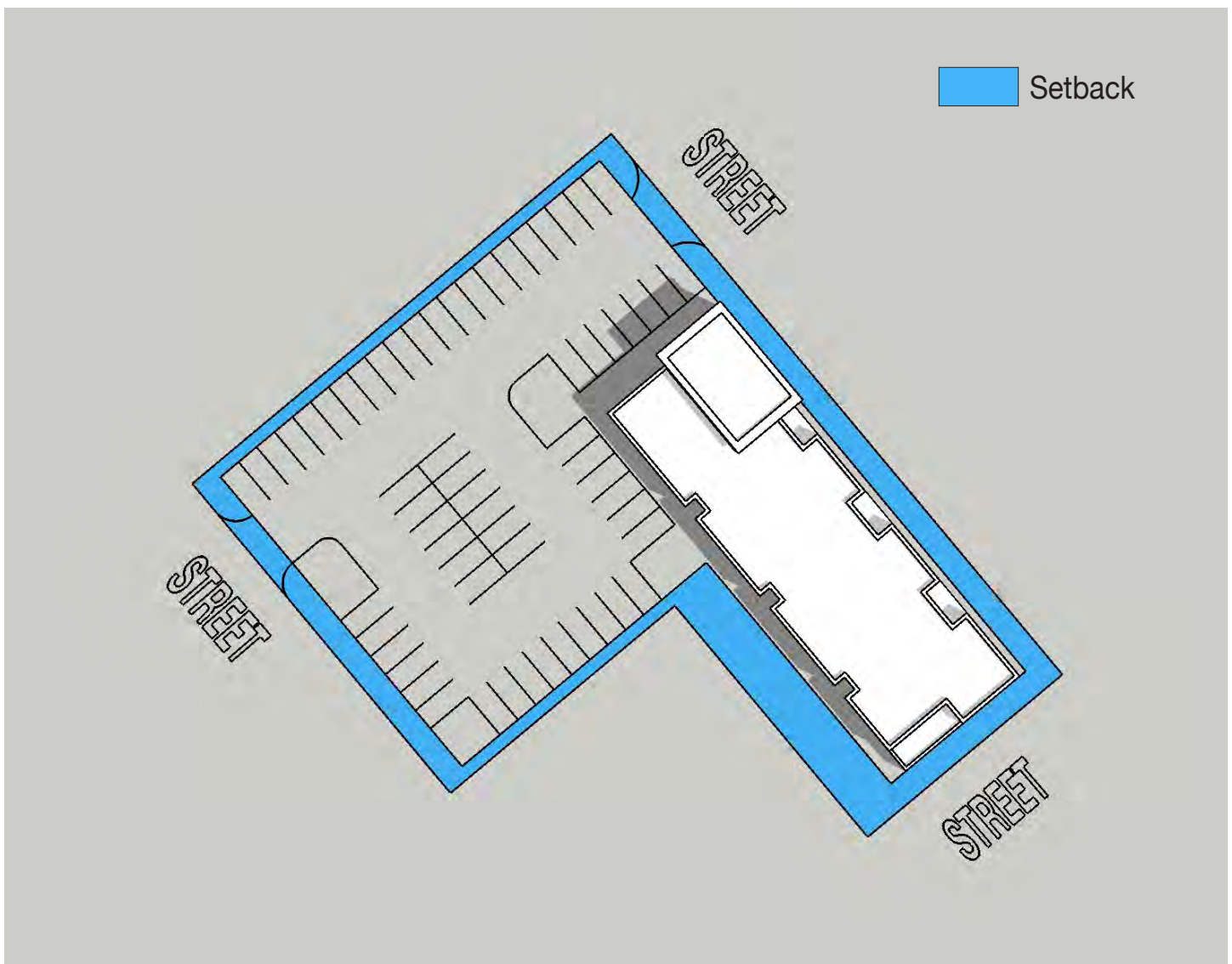
Land Use: Ground Floor Retail (P), Residential above ground floor (C)

Building Placement: 10 ft Front Yard, 5 ft Side Yard, 20 ft Rear Yard

Building Height: 2 stories, 35 ft

Building Area: 22,000 sf (11,000 sf Retail, 11 Residential Units)

Parking: 61 pkg spaces (11,000/250 = 44 Retail pkg, 11du x 1.5 = 16.5 Residential pkg)



Site 1 : DA 1 Zoning

Zoning: Downtown Business District Area 1: Old Town Retail

Site Area: 0.7 ac

FAR: 80%

Land Use: Ground Floor Retail (P), Residential above ground floor (C)

Building Placement: 10 ft Front Yard, 0 ft Side Yard, 0 ft Rear Yard

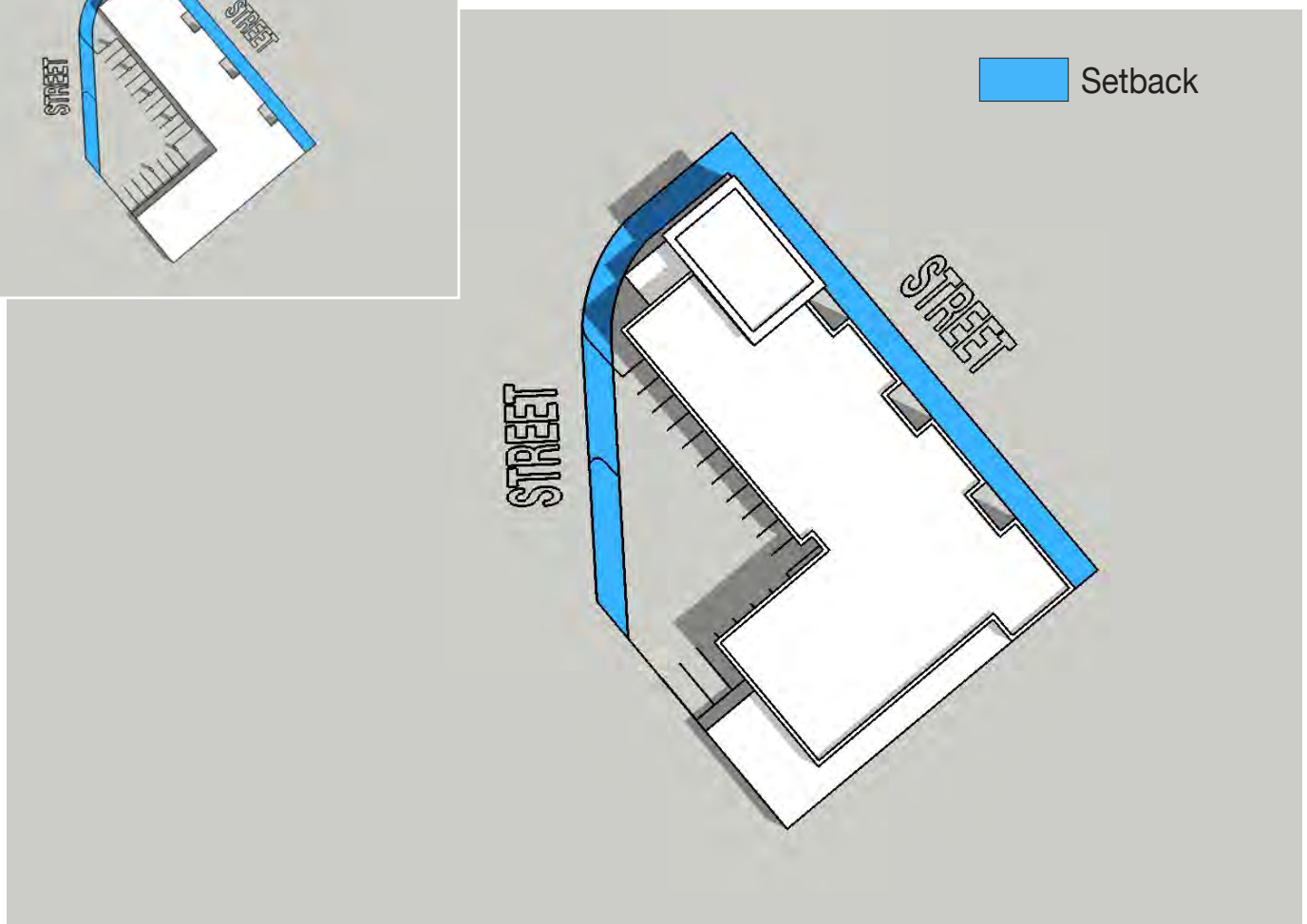
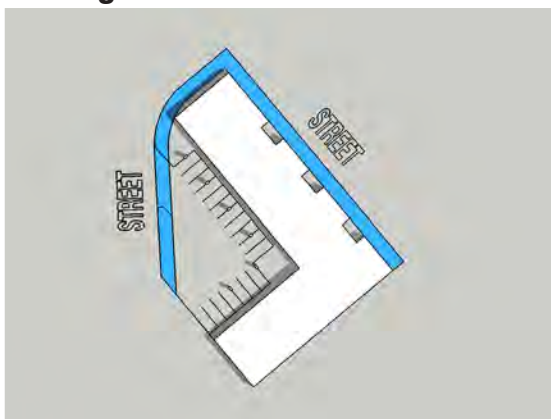
Building Height: 2 stories, 35 ft

Building Area: 24,500 sf (12,250 sf Retail, 12 Residential Units)

Parking: 67 required pkg spaces ($12250/250 = 49$ Retail pkg, $12\text{du} \times 1.5 = 18$ Residential pkg)

On-site Parking: 18 **Off-site In Lieu:** 49

Parking Plan



Roof Plan

Site 2 : DA 1 Zoning

Zoning: Downtown Business District Area 1: Old Town Retail

Site Area: 1 ac

FAR: 80%

Land Use: Ground Floor Retail (P), Residential above ground floor (C)

Outdoor Gathering Space: 6,500 sf

Building Placement: 10 ft Front Yard, 0 ft Side Yard, 0 ft Rear Yard

Building Height: 2 stories, 35 ft

Building Area: 35,000 sf (17,500 sf Retail, 17 Residential Units)

Parking: 95.5 required pkg spaces ($17,500/250 = 70$ Retail pkg, $17\text{du} \times 1.5 = 25.5$ Residential pkg)

On-site Parking: 30 **Gathering Space Parking Credit:** 65 **Off-site In Lieu:** 0.5

Parking Plan



Roof Plan

APPENDIX B:

Financial Feasibility Assumptions and Model Output Detail



APPENDIX B – FINANCIAL FEASIBILITY ASSUMPTIONS AND MODEL OUTPUT DETAIL

Market Value Assumptions

This analysis reflects current market conditions, including achievable lease rates based on market research conducted using CoStar Group, typical operating cost factors for each asset type, and EPS knowledge of the local commercial real estate landscape. The pro forma relies on assumptions that are representative of the local market and the MIG site programs.

- **Retail/Restaurants** – Retail uses, including traditional retail and restaurant spaces, are assumed to achieve above-average rent as compared with the downtown market overall. Based on new product asking rates in the market, the monthly average lease rate is assumed to be \$4.00 (NNN) per square foot per month.
- **Office Space** – Office space for local businesses, medical professionals, and other office space users. Based on new product asking rates in the market, the monthly average lease rate is assumed to be \$4.00 (NNN) per square foot per month.
- **Housing** – New rental housing is proposed but not currently leasing in the downtown area. Based on older local comparables and rates for new product nearby, residential rents are assumed to be \$3.75 per square foot per month. Consistent with sales performance at the Danville Hotel project, new condominiums are assumed to achieve a sales pricing of \$850 per square foot.

Project Cost Assumptions

Project costs are reflective of a comprehensive vertical development budget and include construction costs, soft costs, and other project costs, including a development contingency allowance and the required developer rate of return.

- **Construction costs** – Project construction costs cover the vertical development of building spaces, including all labor and materials, fit out, and general contractor charges. For housing, the costs include the necessary furniture, fixtures, and equipment (FF&E). Retail uses are assumed to have a modest tenant improvement budget for fit out. Construction cost assumptions reflect current construction cost estimating data.⁹ Horizontal costs including demolition costs, basic site work and surface parking also are included.
- **Soft costs** – Soft costs include professional services associated with planning, design, and project approval; permits and fees; assumptions regarding taxes and insurance and financing costs; and general and administrative costs borne by the project developer. Building, planning, and impact fees have been estimated at a planning level in consultation with Town of Danville staff. Development impact fees include parking in-lieu fees (if applicable), as well as childcare, parkland, transportation, and other fees.
- **Other project costs** – These costs include a development contingency of 5.0 percent and the developer's required return on investment (ROI), which is assumed to be 12.0 percent of all project costs.

⁹ EPS reviewed 2018 construction cost data from RS Means and Saylor.

Feasibility Results by Scenario

Summary of Results - Scenrio 1

Ground Floor Retail/Residential Rental

Pro Forma Scenario	Acreage	Building Square Footage	Floor Area Ratio	Off-site Parking	Building Value	Building Value Per Square Foot	Land Value	Land Value per Acre ¹
Existing Retail Building ¹	0.3	7,260	0.5	na	\$4,014,054	\$553	\$4,014,054	\$12,042,162
<u>Site 1 Redevelopment with Retail / Residential Rental Mixed Use</u>								
DA4 - Current Zoning	0.7	12,000	0.4	0	\$7,018,920	\$585	\$1,996,499	\$2,852,141
<u>DA1 - Upzoning</u>	0.7	<u>24,400</u>	0.8	49	<u>\$14,271,804</u>	<u>\$585</u>	<u>\$4,562,641</u>	<u>\$6,518,059</u>
Upzoning Value Creation		12,400			\$7,252,884	\$585	\$2,566,143	\$3,665,918
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$5,524,103
<u>Site 2 Redevelopment with Retail / Residential Rental Mixed Use</u>								
DA4 - Current Zoning	1.0	22,000	0.5	0	\$12,868,020	\$585	\$3,936,153	\$3,936,153
<u>DA1 - Upzoning</u>	1.0	<u>35,000</u>	0.8	1	<u>\$20,471,850</u>	<u>\$585</u>	<u>\$7,030,592</u>	<u>\$7,030,592</u>
Upzoning Value Creation		13,000			\$7,603,830	\$585	\$3,094,439	\$3,094,439
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$5,011,570

(1) Land value for full redevelopment established at current Net Building Value.

Summary of Results - Scenario 2

Ground Floor Retail/Residential Condominium

Pro Forma Scenario	Acreage	Building Square Footage	Floor Area Ratio	Off-site Parking	Building Value	Building Value Per Square Foot	Land Value	Land Value per Acre ¹
Existing Retail Building ¹	0.3	7,260	0.5	na	\$4,014,054	\$553	\$4,014,054	\$12,042,162
Site 1 Redevelopment with Retail / Residential Condominium Mixed Use								
DA4 - Current Zoning	0.7	12,000	0.4	0	\$8,328,420	\$694	\$3,383,564	\$4,833,663
DA1 - Upzoning	0.7	24,400	0.8	49	\$16,930,012	\$694	\$7,380,751	\$10,543,930
Upzoning Value Creation		12,400			\$8,601,592	\$694	\$3,997,186	\$5,710,266
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$1,498,232
Site 2 Redevelopment with Retail / Residential Condominium Mixed Use								
DA4 - Current Zoning	1.0	22,000	0.5	0	\$15,268,770	\$694	\$6,479,107	\$6,479,107
DA1 - Upzoning	1.0	35,000	0.8	1	\$24,291,225	\$694	\$10,885,688	\$10,885,688
Upzoning Value Creation		13,000			\$9,022,455	\$694	\$4,406,581	\$4,406,581
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$1,156,474

(1) Land value for full redevelopment established at current Net Building Value.

Summary of Results - Scenario 3

Ground Floor Retail/Office

Pro Forma Scenario	Acreage	Building Square Footage	Floor Area Ratio	Off-site Parking	Building Value	Building Value Per Square Foot	Land Value	Land Value per Acre ¹
Existing Retail Building ¹	0.3	7,260	0.5	na	\$4,014,054	\$553	\$4,014,054	\$12,042,162
Site 1 Redevelopment with Retail / Office Mixed Use								
DA4 - Current Zoning	0.7	12,000	0.4	18	\$7,961,760	\$663	\$2,658,668	\$3,798,096
DA1 - Upzoning	0.7	24,400	0.8	85	\$16,184,666	\$663	\$5,653,998	\$8,075,021
Upzoning Value Creation		12,400			\$8,222,906	\$663	\$2,995,330	\$4,276,925
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$3,967,141
Site 2 Redevelopment with Retail / Office Mixed Use								
DA4 - Current Zoning	1.0	22,000	0.5	32	\$14,596,560	\$663	\$5,168,576	\$5,168,576
DA1 - Upzoning	1.0	35,000	0.8	53	\$23,221,800	\$663	\$9,327,451	\$9,327,451
Upzoning Value Creation		13,000			\$8,625,240	\$663	\$4,158,875	\$4,158,875
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$2,714,711

(1) Land value for full redevelopment established at current Net Building Value.

Summary of Results - Scenario 4

Ground Floor Restaurant/Residential Condominium

Pro Forma Scenario	Acreage	Building Square Footage	Floor Area Ratio	Off-site Parking	Building Value	Building Value Per Square Foot	Land Value	Land Value per Acre ¹
Existing Retail Building ¹	0.3	7,260	0.5	na	\$4,014,054	\$553	\$4,014,054	\$12,042,162
<u>Site 1 Redevelopment with Restaurant / Residential Condominium Mixed Use</u>								
DA4 - Current Zoning	0.7	12,000	0.4	24	\$8,328,420	\$694	\$3,027,942	\$4,325,631
<u>DA1 - Upzoning</u>	0.7	<u>24,400</u>	<u>0.8</u>	98	<u>\$16,930,012</u>	<u>\$694</u>	<u>\$5,953,200</u>	<u>\$8,502,341</u>
Upzoning Value Creation		12,400			\$8,601,592	\$694	\$2,925,258	\$4,176,710
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$3,539,821
<u>Site 2 Redevelopment with Restaurant / Residential Condominium Mixed Use</u>								
DA4 - Current Zoning	1.0	22,000	0.5	44	\$15,268,770	\$694	\$5,827,132	\$5,827,132
<u>DA1 - Upzoning</u>	1.0	<u>35,000</u>	0.8	71	<u>\$24,291,225</u>	<u>\$694</u>	<u>\$9,834,549</u>	<u>\$9,834,549</u>
Upzoning Value Creation		13,000			\$9,022,455	\$694	\$4,007,416	\$4,007,416
Land Value Gain Over Existing Retail Asset (Per Acre)								-\$2,207,613

(1) Land value for full redevelopment established at current Net Building Value.

Summary of Results - Scenario 5

Commercial Condominium/Residential Condominium

Pro Forma Scenario	Acreage	Building Square Footage	Floor Area Ratio	Off-site Parking	Building Value	Building Value Per Square Foot	Land Value	Land Value per Acre ¹
Existing Retail Building ¹	0.3	7,260	0.5	na	\$4,014,054	\$553	\$4,014,054	\$12,042,162
Site 1 Redevelopment with Commercial Condominium / Residential Condominium Mixed Use								
DA4 - Current Zoning	0.7	12,000	0.4	3	\$8,904,600	\$742	\$3,968,853	\$5,669,789
DA1 - Upzoning	0.7	24,400	0.8	55	\$18,101,271	\$742	\$8,802,844	\$12,575,491
Upzoning Value Creation		12,400			\$9,196,671	\$742	\$4,833,991	\$6,905,702
Land Value Gain Over Existing Retail Asset (Per Acre)								\$533,329
Site 2 Redevelopment with Commercial Condominium / Residential Condominium Mixed Use								
DA4 - Current Zoning	1.0	22,000	0.5	5	\$16,325,100	\$742	\$6,639,038	\$6,639,038
DA1 - Upzoning	1.0	35,000	0.8	9	\$25,971,750	\$742	\$12,592,706	\$12,592,706
Upzoning Value Creation		13,000			\$9,646,650	\$742	\$5,953,668	\$5,953,668
Land Value Gain Over Existing Retail Asset (Per Acre)								\$550,544

(1) Land value for full redevelopment established at current Net Building Value.